



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 14, 1998

H.R. 4110

Veterans Benefits Improvement Act of 1998

As ordered reported by the House Committee on Veterans' Affairs on June 24, 1998

SUMMARY

H.R. 4110 would affect several veterans' programs, including readjustment benefits, housing, and disability compensation. CBO estimates that enacting the bill would increase direct spending by about \$8 million in 1999 and \$36 million over the 1999-2003 period. Because the bill would affect direct spending and revenues, pay-as-you-go procedures would apply. In addition, H.R. 4110 would increase spending subject to appropriation by about \$18 million a year. The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not have any significant effects on the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in Table 1. The costs of this legislation fall within budget function 700 (veterans affairs), except as noted.

Direct Spending and Revenues

The bill would affect direct spending in veterans' programs for readjustment benefits, housing, pension, burial benefits, and disability compensation. It would also make changes to the retirement program for judges on the Court of Veterans' Appeals; those changes would affect both direct spending and revenues.

TABLE 1. BUDGETARY IMPACT OF H.R. 4110, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
DIRECT SPENDING						
Proposed Changes						
Estimated Budget Authority	0	8	6	6	6	10
Estimated Outlays	0	8	6	6	6	10
REVENUES						
Proposed Changes	0	a	a	a	a	a
SPENDING SUBJECT TO APPROPRIATION						
Proposed Changes						
Estimated Authorization Level	0	20	18	18	18	18
Estimated Outlays	0	9	13	16	18	18
a. Increase of less than \$15,000.						

Readjustment Benefits. The bill would make four changes to laws governing veterans' readjustment benefits (see Table 2).

Reporting Fees. Under current law, VA pays a nominal reporting fee from discretionary funds to institutions attended by veterans, based on enrollment as of October 31 of each year. Section 201 would make these fees mandatory and cover students who are enrolled at other times of the year. Direct spending would increase by \$3 million a year, of which \$2 million would stem from the change in the source of funding and \$1 million would be traceable to the expanded coverage. (Spending subject to appropriation would decline by \$2 million a year under this provision.)

On-The-Job-Training. Section 205 would expand on-the-job-training (OJT) opportunities for beneficiaries of the Montgomery GI Bill (MGIB). Current law requires regular pay increases for student veterans in OJT programs and prohibits participation in programs where trainees do not receive their first pay increase until after completing the program. The bill would allow veterans to receive benefits from participating in certain programs operated by federal, state, or local governments. CBO estimates that this provision would increase the number of trainees by about 10 percent, resulting in increased outlays of about \$2 million a year over the 1999-2003 period.

TABLE 2. DIRECT SPENDING IN H.R. 4110, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS

	By Fiscal Year, Outlays in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
VETERANS' READJUSTMENT BENEFITS						
Spending Under Current law	1,163	1,175	1,191	1,190	1,223	1,248
Proposed Changes						
Reporting Fees	0	0	3	3	3	3
On-The-Job Training	0	2	2	2	2	2
Work-Study Benefits	0	a	a	a	a	a
Education Credits	<u>0</u>	<u>b</u>	<u>b</u>	<u>b</u>	<u>b</u>	<u>b</u>
Subtotal	0	2	5	5	5	5
Spending Under the Bill	1,163	1,177	1,196	1,195	1,228	1,253
VETERANS' HOUSING						
Spending Under Current law	617	112	117	118	118	289
Proposed Changes	0	0	-3	-3	-3	3
Spending Under the Bill	617	112	114	115	115	292
VETERANS' PENSION						
Spending Under Current law	3,037	3,047	3,107	3,138	3,182	3,706
Proposed Changes	0	4	2	2	2	0
Spending Under the Bill	3,037	3,051	3,109	3,140	3,184	3,706
BURIAL BENEFITS						
Spending Under Current law	133	123	123	125	128	131
Proposed Changes	0	2	2	2	2	2
Spending Under the Bill	133	125	125	127	130	133
TOTAL						
Proposed Changes	0	8	6	6	6	10

a. Savings of less than \$500,000.

b. Costs of less than \$500,000.

Work-Study Benefits. Under current law, veterans in work-study programs receive 40 percent of their wages for a semester when it begins. Section 202 would permit them to receive their wages as they are earned. This provision would result in savings in the first year, but in succeeding years the provision would have little or no net effect. CBO estimates that the provision would lower annual spending by less than \$500,000.

Education Credits. Section 203 would allow a veteran who does not have a high school diploma or equivalent before being discharged from service to receive benefits under the MGIB. The veteran would have to make the servicemembers' contribution of \$1,200, establish that an institution of higher learning is willing to grant 12 semester hour credits for military or other experiences, and earn a high school diploma before enrolling in the institution. Based on information from VA, CBO estimates that this provision would affect about 30 veterans a year and would entail an insignificant cost over the 1999-2003 period.

Home Loans for Reservists. Section 402 would permanently extend home loan benefits for reservists. Under current law, these benefits expire on October 27, 1999. CBO estimates that this provision would increase VA loan guarantees by roughly 7,000 each year. Because origination fees would more than offset the subsidy cost of additional loan guarantees, CBO estimates that the provision would lower net spending by about \$3 million annually through 2002. Starting in 2003, however, this provision would cost \$3 million a year because certain fees will expire under current law.

Pension Recipients in VA Nursing Homes. Section 406 would permanently authorize payments from veterans' pensions (a mandatory account) to the Medical Facilities Revolving Fund, which could spend the receipts. The transfers would equal the difference between the standard monthly pension payments for some veterans and the \$90 monthly payment they receive under provisions scheduled to expire in 2002. CBO estimates that this section would increase spending by about \$4 million in 1999 and about \$10 million over the 1999-2003 period.

Burial Flags. Under section 403, VA would furnish burial flags on behalf of certain deceased members and former members of the Selected Reserve. Under current law, VA provides a flag to drape the casket of certain other deceased veterans. In 1997, VA spent \$16 million on approximately 458,000 flags. CBO estimates that the costs of implementing this provision would be \$2 million annually over the 1999-2003 period.

Court of Veterans' Appeals. Title III of the bill would make a number of changes to the retirement system for judges on the Court of Veterans' Appeals (CVA). Most important, the bill would allow as many as five of the CVA's judges to retire early.

The CVA was created in 1989 to review decisions of the Board of Veterans' Appeals on matters dealing with veterans' benefits. Because the court is relatively new, all of the initial appointees are still serving, and the CVA's Retirement Fund does not currently pay any benefits. CBO assumed for this estimate that under current law all of the judges would complete their 15-year terms and that the Retirement Fund would not pay any benefits before fiscal year 2004 at the earliest.

All of the CVA's judges will finish their terms in 2004 or 2005. Turnover in those two years could thus be very high and disrupt the court's operations. H.R. 4110 would avoid this problem by allowing one judge to retire early each year between 1999 and 2003. This would stagger judges' terms and help ensure greater continuity.

Early retirement would only be available to associate judges who have served 10 years on the Court, are at least 55 years old, and meet certain other requirements. Judges retiring early would also face a reduction in their annuity of about 10 to 15 percent. Information from the CVA indicates that at least five judges would be eligible for early retirement. CBO assumed that three judges would accept early retirement, with one judge retiring early in 1999, 2001, and 2003. These early retirements would increase direct spending on retirement benefits by about \$60,000 in 1999 and \$340,000 in 2003.

H.R. 4110 would make a number of additional changes to the CVA's retirement system, such as clarifying the definition of creditable service, limiting cost-of-living adjustments in certain situations, and prohibiting retired judges from collecting benefits while representing an individual seeking veterans' benefits. These provisions would not have a significant budgetary impact.

Title III would increase retirement contributions from CVA judges who participate in the court's survivor annuity program. Under this plan, both active and retired judges contribute 3.5 percent of their salary or retired pay. Assuming that judges who retire early are replaced, the total number of judges contributing would be higher under H.R. 4110 than under current law. CBO estimates that any revenue increase would be less than \$15,000 annually.

National Service Life Insurance. Section 408 would merge the insurance policies of approximately 1,200 veterans currently enrolled in a small part of the National Service Life Insurance (NSLI) program with a larger pool of policies in other NSLI programs. The "H" program consists of policies that were issued between 1946 and 1949 to veterans with service-connected disabilities. This provision would cap premiums and pay dividends to policyholders in that program. CBO estimates that the costs of implementing this provision would be insignificant over the 1999-2003 period.

Disability Compensation. Section 101 would increase the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation by the same cost-of-living adjustment (COLA) payable to Social Security recipients. The increase would take effect on December 1, 1998, and the results of the adjustment would be rounded to the next lower dollar. However, the COLA is assumed in the budget resolution baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33). As a result, these provisions would have no budgetary effect relative to the baseline.

Spending Subject to Appropriation

The bill contains several provisions that would affect spending subject to appropriation, but only the reporting fee and two other provisions would have a significant impact (see Table 3).

Disabled Veterans Outreach Program. Section 405 of the bill would amend the authorization for the Disabled Veterans Outreach Program (DVOP) to provide for a greater number of outreach program specialists. DVOP is administered by the Department of Labor (DOL) and provides grants to states to hire individuals to serve the employment needs of disabled veterans. Current law calls for one DVOP specialist in a state for each 6,900 veterans in the state, who are veterans of the Vietnam era, first entered active duty as a member of the armed forces after May 7, 1975, or are disabled. According to a 1997 report by the General Accounting Office, this formula would cover about 13.9 million veterans nationwide. For 1998, information from DOL indicates that the current formula would call for 2,039 specialists. However, appropriations for DVOP in fiscal year 1998 are \$80 million, or an amount sufficient for about 73 percent of the authorized positions. In years when appropriations are not sufficient to support the number of authorized positions, each state's allocation is reduced proportionately.

H.R. 4110 would change the formula to provide one specialist for every 7,400 veterans residing in the state who are between the ages of 20 and 64. According to a recent report on veteran population, there are about 16.4 million veterans in this age group. Thus, this section would authorize an increase of roughly 200 specialists nationwide, at an average cost of about \$51,500 per specialist, for a total increase in authorizations of about \$10 million in 1999 and about \$50 million over the 1999-2003 period. The costs of this section fall under budget function 500 (education, employment, training, and social services).

TABLE 3. SPENDING SUBJECT TO APPROPRIATIONS IN H.R. 4110, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
DISABLED VETERANS OUTREACH PROGRAM						
Spending Under Current Law for the Disabled Veterans Outreach Program						
Estimated Authorization Level ^a	80	104	104	104	104	104
Estimated Outlays	80	102	104	104	104	104
Proposed Changes						
Estimated Authorization Level	0	10	10	10	10	10
Estimated Outlays	0	9	10	10	10	10
Spending Under H.R. 4110 for the Disabled Veterans Outreach Program						
Estimated Authorization Level ^a	80	114	114	114	114	114
Estimated Outlays	80	111	114	114	114	114
STATE CEMETERY GRANTS						
Spending Under Current law for State Cemetery Grants						
Authorization Level ^a	10	0	0	0	0	0
Estimated Outlays	2	5	3	3	0	0
Proposed Changes						
Estimated Authorization Level	0	10	10	10	10	10
Estimated Outlays	0	0	5	8	10	10
Spending Under H.R. 4110 for State Cemetery Grants						
Estimated Authorization Level ^a	10	10	10	10	10	10
Estimated Outlays	2	5	8	11	10	10
REPORTING FEE FOR EDUCATION BENEFITS^b						
Spending Under Current Law for General Operating Expenses						
Estimated Authorization Level ^a	786	786	786	786	786	786
Estimated Outlays	790	786	786	786	786	786
Proposed Changes						
Estimated Authorization Level	0	0	-2	-2	-2	-2
Estimated Outlays	0	0	-2	-2	-2	-2

(Continued)

TABLE 3. CONTINUED

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Spending Under H.R. 4110 for						
General Operating Expenses						
Estimated Authorization Level ^a	786	786	784	784	784	784
Estimated Outlays	790	786	784	784	784	784
TOTAL						
Proposed Changes						
Estimated Authorization Level	0	20	18	18	18	18
Estimated Outlays	0	9	13	16	18	18

- a. The 1998 level is the amount appropriated for that year. Funding for fiscal years 1999-2003 are subject to appropriation. The amounts shown here represent authorized levels, assuming no adjustments for inflation.
- b. See the section on direct spending for the basis of this estimate.

State Cemetery Grant Program. VA provides grants to states for establishing, expanding, or improving state veterans cemeteries that are part of the National Cemetery System. Section 404 would increase the maximum federal share of the costs of state cemetery construction from 50 percent to 100 percent and would permit federal funding for up to 100 percent of the cost of initial equipment for cemetery operations. This section would also authorize the appropriation of \$10 million without fiscal year limitation for fiscal year 1999 and for each succeeding fiscal year through 2004. CBO estimates outlays for this provision based on historical spending patterns.

Other Provisions. Other provisions would have little or no impact on spending subject to appropriation.

Requirements for Commercial Pilot's Licenses. Section 204 would change the eligibility criteria for veterans who train for commercial pilot's licenses. Under current law, trainees must qualify for a private pilot's license in order to receive MGIB benefits. Some trainees allow their licenses to expire during training because they do not realize that it makes them ineligible for benefits, which must then be refunded to VA. Once licenses are renewed, however, VA reimburses the veteran. By allowing veterans to present their licenses at the beginning and end of training, CBO estimates that section 204 would result in negligible savings in administrative costs.

Procurement Procedures for Foreclosed Homes. Section 401 would change administrative procedures for awarding contracts to manage properties VA obtains from foreclosed loans. When a veteran defaults on a mortgage guaranteed by VA, the department will often acquire the property and hire a contractor to repair and manage it before it can be resold. Under current law, VA is required to advertise proposed contracts; although it is not required to follow a competitive process for reviewing and awarding contracts, VA does this as a matter of practice. The bill would formalize the procurement process by requiring VA to follow competitive procedures at all stages. Thus, the bill would deny VA some flexibility but not substantially change its current practices.

Notices Related to Education Benefits. Two provisions would require VA to provide certain information to participants in MGIB. Section 206 would require VA to inform servicemembers of their educational benefits after they make the required contribution but before they leave military service. Section 207 would require VA to inform servicemembers of the minimum service necessary to receive education benefits when they are about to leave service even if they do not meet those requirements. Currently, a servicemember must serve three years on active duty or six years in the Selected Reserve in order to qualify for MGIB benefits.

Board of Veterans' Appeals. Section 407 would require that members of the Board of Veterans' Appeals be attorneys. Under this provision, the Secretary of Veterans' Affairs could also appoint certain members to attorney positions after they are removed from the board.

Court of Veterans' Appeals. Title III would allow the chief judge of the Court of Veterans Appeals (CVA) to recall retired judges to active duty as the court's workload requires. The chief judge would also be required to submit a report to Congress on the feasibility of merging the court's retirement and survivor annuity plans with those of other federal judges. These provisions could result in increased administrative expenses for the court, but the amount of the increase should be insignificant. The bill would also change the CVA's name to the Court of Appeals for Veterans Claims.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	8	6	6	6	10	10	10	10	10	10
Changes in receipts	Not applicable										

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 4110 contains no intergovernmental mandates as defined in the UMRA. The bill would amend the State Cemetery Grants Program to encourage additional participation in the program by states. The bill would not have any other significant effects on the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill would impose no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On February 3, 1998, CBO prepared an estimate for H.R. 2887 as introduced. H.R. 2887 and section 401 of H.R. 4110 are identical and would not have a significant budgetary impact.

ESTIMATE PREPARED BY:

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